

Don't let the US rush you into bad trade deal, May is warned

Sam Coates Deputy Political Editor

Donald Trump's pledge to secure a quick trade deal with Britain after Brexit is "very good news", Boris Johnson said yesterday despite doubts inside government over rushing any agreement.

Whitehall departments have been asked to come up with three priorities for future talks with America to help the provisional discussions, likely to begin after Theresa May visits the US in the spring.

Some MPs are pushing for a quick and limited deal that would be agreed straight after Britain leaves the EU on areas such as the car industry. This would be followed by a second round of negotiations that looks at a more comprehensive agreement.

Mr Trump told *The Times* that he wanted a deal "very quickly", putting pressure on Mrs May to start talks early. However, senior government figures said that they were against Britain rushing into a poor trade deal with the US. They said that the UK "needs really good trade negotiators" and should speak to other countries first before starting talks.

Cabinet ministers accept that a deal cannot formally be signed before Britain leaves the EU, probably in spring 2019. It can be agreed "in pencil" before then, they say, then "inked" after Brexit. "We shouldn't rush a deal for the sake of it. Trump says this will help us with Brexit, but not at the cost of getting a crap deal," one source said.

The figures said that the UK needed to test the water elsewhere in the world before rushing into detailed talks, while stressing they wanted strong bilateral relations with the new US administration from the moment the inauguration was complete.

"We need to go out and have similar talks with the Indians, Japanese and so on. That's right in terms of working out our negotiating principles," one said.

The foreign secretary said that a deal could be "very much in the interests of both sides". Speaking at a meeting of EU foreign ministers in Brussels, Mr Johnson said: "I think it's very good news that the United States of America wants to do a good free-trade deal with us and wants to do it very fast."

"It's great to hear that from president-elect Donald Trump. Clearly it will have to be a deal that's very much in the interests of both sides, but I have no doubt that it will be."

Mrs May's official spokeswoman was more low key. While welcoming the statement, No 10 expected that the visit to Washington in the spring would provide an opportunity for "early discus-

A tough sell for America's widgetmakers

Analysis

A trade deal with the US is the divorce dividend that Brexiters have dreamt of (Marcus Leroux writes).

A quick deal would show the world that Britain, unburdened by the special interests that mired a US-EU deal, could strike out on its own.

It would also enable the author of *The Art of the Deal* to stand up his claim that he could reach better agreements than his incompetent predecessors.

But there are legal and practical constraints that make a quickie agreement difficult. First, the

government has conceded that it cannot sign any free trade deal while it remains a member of the European Union. Strictly speaking it cannot even negotiate any, but in practice it will be able to begin exploratory "scoping" talks with prospective partners.

More problematic is Britain's uncertain trading relationship with the EU and the rest of the world. US negotiators, and the business lobbies bending their ears, cannot know the value of British concessions until they know how Britain will trade with Europe.

For instance, an American widgetmaker might value access to the UK far more if it can use Britain as a springboard for shipping tariff-free to European markets.

Brendan McGivern, a trade lawyer with White & Case in Geneva, said that another problem would be that Britain has not yet sorted out its stand-alone presence at the World Trade Organisation. It must submit a list of import taxes that the UK will put on all goods entering the country, with the exception of those coming from very poor countries or nations with

which it has a trade deal. "You can't negotiate a reciprocal reduction in tariffs if you don't know what one side's tariffs are going to be," he said.

Liam Fox, the trade secretary, has said that he will seek to replicate the existing EU tariffs "as far as possible". But it could take years to formalise and certain aspects, such as agricultural quotas, cannot simply be copied.

The final reason relates to the sheer breadth and depth of modern trade deals which encompass product standards, safety specifications and all manner of regulations.

are showing for engaging with the UK," she said. Andrew Lilico, an economist and leading Brexit campaigner, said that this was "more evidence that we're going to turn Trump down".

Open Britain, the pressure group pushing to retain membership of the single market, suggested that a trade deal with America may hurt Britain. Labour, Liberal Democrat and Green MPs warned the government not to "open up our NHS to privatisation and reduce the quality of environmental standards".

Mary Creagh, the Labour chairwoman of the environmental audit committee, said: "A quick trade deal with Donald Trump runs real risks. Our food safety and environmental standards could be compromised if we simply open up our domestic markets to US interests without asking questions. The government is chasing positive Brexit headlines but that must not come at the expense of the UK remaining a world leader on environmental issues."

Dave Prentis, general secretary of Unison, said: "Talk of a quick-fix trade deal with the US is just bluster. The UK government isn't free to start negotiations until 2019 and even then it would take years of negotiation. It would be as bad for the NHS and the environment as the Transatlantic Trade and Investment Partnership threatened to be."

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Special relationship

● The United States remains the top export destination for British companies. In the 11 months to the end of November last year the US imported a total of \$49.6 billion of goods and services from Britain, according to the US Census Bureau. But then again it had exported \$51.1 billion of goods to Britain over the same period. In total this left the UK as a net importer of American goods but only to the tune of a relatively small £1.5 billion. Germany is the UK's second biggest export destination, with goods worth £38.5 billion.

● The tariffs, or taxes on goods entering a

country, are already relatively low between the US and the European Union, averaging about 3 per cent but the EU has been trying to negotiate a tailor-made trade deal with the Americans since 2011. Those talks have become bogged down over a number of issues, including how to resolve disputes once a deal is signed.

● A bilateral trade deal between the UK and US would look to bring the trade tariffs much closer to zero. The problem, however, is how to overcome non-tariff barriers for areas of business that range from bank regulations and car safety standards

to animal welfare and environmental protection.

● The simplest way for the non-tariff issue to be resolved is for the US to accept all of Britain's standards and regulations and for the UK to do the same with American rules.

● Among the most popular recent UK exports to the US have been: 116 million bottles of Scotch, the equivalent of 220 million pints of ale, 135,000 cars, £2.2 billion worth of aircraft and components, and £5.9 billion of medicine.

Sources: Scotch Whisky Association; Defra; SMMT; US Census; HMRC

What to watch out for in PM's big speech

Membership of the single market

What we know

Theresa May and David Davis, the Brexit secretary, have both already implicitly ruled out Britain remaining in the single market. This is an expression of political reality. There is no way the EU would allow Britain to stay a member of the single market while imposing restrictions on free movement and pulling out of the European Court of Justice — the market's legal arbiter. However, the UK could still negotiate an arrangement that looked very much like membership of the single market but under a different name. As Mr Davis has put it: "We are seeking a bespoke outcome on terms of trading with and operating within the European market."

What to expect

In order to get the best bespoke agreement the UK would have to offer a generous deal on free movement of citizens of EU countries to the UK after Brexit. Any hint Mrs May gives on future UK immigration policy will be significant.

Who wants what?

Philip Hammond, the chancellor, and to a lesser extent Mr Davis are all in favour of trying to replicate Britain's current trading relationship as closely as possible. Others such as Liam Fox, the trade secretary, think such arrangements are less important.

Membership of the customs union

What we know

This is a fiendishly complicated area and, contrary to some claims, there is not a binary choice between membership of the customs union and the ability to do free-trade deals with other countries. Turkey, for example, has a customs agreement with the EU but has some limited flexibility to initiate its own trade agreements. Precise arrangements are open to negotiation.

What to expect

Mrs May will not explicitly rule out Britain's continued membership of the customs union. However, she will put emphasis on the ability of the UK to set its own trade policy post-Brexit as a priority.

Who wants what?

Dr Fox wants Britain to pull out of the



customs union but others in the cabinet are more cautious, not least Mr Hammond who is concerned that even the most simple trade deal will take years to agree.

Money

What we know

Britain is a £9 billion net contributor to the EU and Brexit will leave a large hole in its budget. Money therefore is a useful card for the government to play in return for preferential market access. Mr Davis has already said the government will "consider" continuing some form of payment post departure.

What to expect

Mrs May is unlikely to say much more on this in her speech — but its omission will be just as telling given how big an issue it was in the referendum campaign.

Who wants what?

Boris Johnson, who led the Leave campaign, believes money should be one of Mrs May's red lines. But Mr Davis, a Leaver who made no such promise, thinks it should be open to negotiation.

Transition arrangements

What we know

Mrs May has

David Davis and Philip Hammond want to replicate the current trading relationship as closely as possible, but Theresa May is hawkish about free movement. Boris Johnson wants to cut payments to the EU

already said that it may be necessary to agree transition arrangements to ensure that a so-called cliff-edge Brexit is avoided if the two-year talks run over.

What to expect

She will repeat this view in her speech but make clear that this would be limited and time specific.

Who wants what?

No one in the government is opposed to transition arrangements per se but there are big divisions on how extensive they should be and how long they should last. The Treasury thinks they should be a priority, Mr Davis less so.

Immigration

What we know

The future of Britain's immigration policy is the area of the government's Brexit strategy we know least about. The key question yet to be decided is whether to offer preferential access to UK labour markets to EU citizens or create a level playing field with the rest of the world.

What to expect

Don't expect much more from Mrs May on this, in part because the government has not yet agreed a position. She will restate her intention to take back control of immigration but not lay out any specific details about the overall approach.

Who wants what?

Mrs May is the most hawkish member of her government on this issue. However, she is being lobbied by businesses big and small not to introduce a draconian cap on numbers or risk significant damage to economic prosperity.

European Court of Justice

What we know

In her conference speech last October Mrs May made clear Britain would be pulling out of the ECJ. But it is not quite that simple. Any post-Brexit trade deal we strike with the EU would have to include a form of legally binding arbitration known as an investor-to-state dispute settlement system. Such a system could end up playing a very similar role to the ECJ on trade and regulation.

What to expect

Mrs May will make clear her opposition to the ECJ again in her speech implicitly making

withdrawal a red line. But she will not dwell on any future legal arrangements that will inevitably have to take its place.

Who wants what?

The cabinet is behind Mrs May on this and accept that Brexit means pulling out of the ECJ.

IMF upgrades British forecast as bosses look on bright side

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Britain's robust growth in the months after the Brexit vote has led the International Monetary Fund to raise its forecast for how well the economy will perform this year.

The IMF has said that the economy will expand by 1.5 per cent in 2017, an increase of 0.4 percentage points on its last estimate in October.

The fund acknowledged that domestic demand in the UK had "held up better than expected in the aftermath of the Brexit vote".

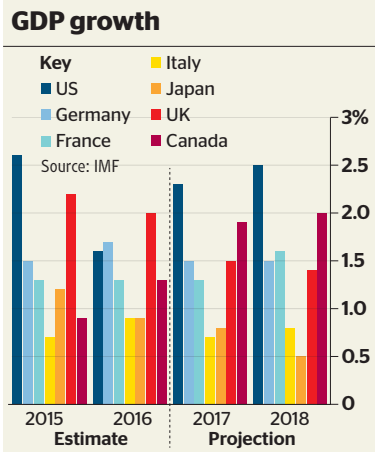
The IMF has also pencilled in growth of 2 per cent for 2016, up from 1.8 per cent in October, making Britain the fastest-growing economy of the G7 group of industrialised nations. The first official estimate on how the UK economy fared in 2016 will not be released until later this month.

The upgrade for 2017 is the largest upward revision made by the IMF to any country in its latest world economic outlook and brings the organisation more in line with other forecasters, such as the Bank of England and the Office for Budget Responsibility, which have become more positive about growth prospects this year.

British chief executives also appear to have brushed off the uncertainty surrounding Brexit, with almost nine out of ten confident that their company will grow in 2017.

On the back of the rising confidence 63 per cent now expect to increase their workforce over the coming 12 months, while only 10 per cent expect to cut jobs.

"Despite an eventful 2016, it's encouraging to see growth firmly on the agenda of UK plc. We may face a period of uncertainty but the economic fundamentals remain positive," Kevin Ellis, chairman and senior partner at PwC, said as the firm released its annual survey of more than 1,300 global leaders on the sidelines of the annual meeting of



the World Economic Forum in Davos yesterday.

Some 89 per cent of the UK chief executives surveyed by PwC said that they were confident of their company's growth in the year ahead, up from 85 per cent in 2016. Forty-one per cent described themselves as "very confident", eight percentage points higher than last year.

British chief executives are even more positive about the long-term outlook, with 95 per cent saying they were confident about their business's growth prospects over the next three years, compared with 91 per cent of bosses globally. More than half of chief executives, at 55 per cent, told PwC they were planning a merger or an acquisition.

Despite the bullish predictions for their own companies, UK chief executives are increasingly bearish about the outlook for the global economy, however. Only 17 per cent expected global economic growth to improve this year, down from 30 per cent in 2016.

Nearly a third of the 126 British chief executives surveyed expected the global economy to decline in the year ahead, compared with 17 per cent globally, 14 per cent in the US and 10 per cent in Germany.

Confrontation with Lords looms over European laws

Henry Zeffman

The government is preparing for a confrontation with the House of Lords over Brexit as unease grows over Theresa May's plan to transfer EU regulations on to the British statute book.

Labour peers have suggested that they will try to block powers of repeal and amendment in the Lords, where Mrs May does not have a majority.

After plans to cut tax credits were blocked by the Lords in 2015, the government proposed measures, drawn up by the former leader of the house, Lord Strathclyde, to limit its powers, but they were dropped by Mrs May.

The government said last month: "If the House of Lords puts itself in a position where it seeks to vote against statutory instruments approved by the House of Commons, then Lord Strathclyde's recommendation provides a clear mechanism for the House of Commons to assert its primacy."

Tighter immigration 'will create fairer society and ease tensions'

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and abolishing the European Court of Justice's role in British courts will be among 12 "negotiating principles", Mrs May will say during a speech at Mansion House in London, along with creating the freedom to negotiate bilateral trade deals outside Europe.

Mrs May will say for the first time that Britain will not retain its access to the single market as it delivers voters' desire to take back control over immi-

gration. She will remain vague about what sort of immigration system would be imposed, however, to avoid worsening a cabinet split on the issue.

The prime minister was last night reported to be leaning in favour of a work permit system that supporters say would allow ministers to tailor EU migrant numbers to economic needs. William Hague, the former foreign secretary, recently spelt out an alternative approach that would allow any EU

national with a job to work in Britain but retain an "emergency brake".

Speaking before the Supreme Court ruling on whether parliament must vote to trigger the formal Article 50 negotiations, expected next week, Mrs May will seek to reassure voters that she has a detailed plan for the talks. "We seek a new and equal partnership — between an independent, self-governing, global Britain and our friends and allies in the EU," she will say. "Not par-

tial membership of the European Union, associate membership of the European Union, or anything that leaves us half-in, half-out. We do not seek to adopt a model already enjoyed by other countries. We do not seek to hold on to bits of membership as we leave. The United Kingdom is leaving the European Union. My job is to get the right deal for Britain as we do."

Mrs May will present Brexit as an opportunity for a "great moment of

national change". Controlling immigration will enable a "fairer" society and ease tensions, she will claim. "I want this United Kingdom to emerge from this period of change stronger, fairer, more united and more outward-looking than ever before," she will say.

Last night Mark Carney, the Bank of England governor, said that consumers were shrugging off uncertainties over Brexit to spend, but issued a warning about increased debt.